THE EUROZONE CRISIS AND ITS IMPLICATIONS FOR MONETARY INTEGRATION IN THE EAEU

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The Economic and Monetary Union of the EU (the EMU) is a globally unique project that pioneered full-fledged monetary integration undertaken by independent countries. The launch of the common currency was expected to ensure monetary stability in the Europe by eliminating exchange rate fluctuations and thus foster growth and integration. However, since the eruption of the sovereign debt crisis in 2010, the euro has become an economic trap for a number of European nations. Therefore, the Eurozone crisis provides valuable implications for the economies considering the possibility of monetary integration in the Eurasian Economic Union (the EAEU).

According to a popular notion, the Eurozone crisis was caused by the fiscal profligacy of Southern member states that had made bad use of the opportunities provided by the EMU. This diagnosis was initially made by the ECB, the European Commission and large creditors including theGerman government and was widely accepted by the mass media and the public. However, this article shows that it was a dramatic diagnostic mistake and, except for Greece, the reasons why member states got into the current crisis have very little to do with poor management of government finances.The failure to recognize the structural nature of the crisis led to poor decisions that intensified the crisis [1, p. 15].

On the theoretical level, the Eurozone crisis had not been anticipated in the 1990s because the optimum currency area (OCA) theory, that was and still remains the dominant way of thinking about the prospects of monetary integration, was incompletein important respects [2, p. 15]. The theory was initially developed in the 1960s in the framework of the debate on fixed versus flexible exchange rate regimes. Hence, it concentrated on the loss of exchange rate flexibility as a mechanism of adjustment to asymmetric shocks. However, a monetary union is more than a system of fixed exchange rates because it implies the loss of virtually all the other monetary instruments by member states and relegation of their monetary sovereignty to a common central bank. The OCA theory understated the adverse effects of divergent developments in real interest rates, neglected the role of credit booms and capital flows in generating asymmetric shocks, disregarded the risk of banking crises and contagion in financial markets and kept silence on central banks' responsibilities in resolving them. Thus, a vast range of monetary issues was overlooked by economists. The Eurozone crisis has demonstrated that the theoretical basis of monetary integration needs expansion.

With hindsight, it is obvious that the creation of the euro became an asymmetric shock itself [3, p. 444]. It contributed to the large gap in economic development between Europe's core (mainly Germany, but also the Netherlands) and its periphery (Spain, Portugal, Greece, and Ireland) in the two following ways.

First, the creation of the single currency eliminated the foreign exchange risk and thus led to the perceptionon the part of many investors that investing in Europe's periphery is as safe as investing in the core economies. Investors were willing to provide capital to Southern Europe, which caused a sharp decline in the cost of borrowing in these countries to the German level [4, p. 326].

Second, the single monetary policy conducted by the ECB aggravated the situation because applying a single nominal interest rate produced different real interest rate levels in Europe's core and periphery. Southern Europe had had a long record of high inflation that also caused high inflation expectations and prevented bringing inflation down to the core's level. Hence, the real interest rates in Southern Europe turned extremely low or even negative. As it is the real interest rate that is taken into account by households and firms to decide their consumption and investment decisions, it created strong incentives to borrow [1, p. 7].

The combination of the two factors resulted into amassive capital movement from Europe's core to its periphery [3, p. 444]. As a result of the capital inflow, the periphery experienced strong booms in construction spending (Ireland, Spain), consumption spending (Portugal) and government spending (Greece) [2, p. 5]. They were accompanied by high growth rates, increasing employment and soaring real income. The periphery was thus lacking the perception of the crisis over the first years of the euro.

However, spending booms made the reduction of the higher-than-average inflation even less possible. This had the effect of creating an asymmetric development in wages and prices, with strong wage and price increases in the periphery and subdued ones in the core countries. As these increases were not in line with labour productivity, the divergences in price developments led to deterioration of competitiveness and consequently large current account deficits of Southern European countries. Financing the current account deficits required even more debt. Therefore, the "onesize-fits-all" monetary policy in the EMU established a vicious inflationary circle in the less developed European economies and reinforced their dependence on foreign capital.

The clear outcome of these processes was the unsustainable debtaccumulation in the periphery. However, it is to be emphasized that the debt build-up took place in the private sectors whereas the government sector was the only sector that did not experience an increase in its debt level (as a percentage of GDP)[5, p. 9]. The public debt of Europe's periphery was actually decreasing fast. With the exception of Greece, Southern European governments were demonstrating exemplary conduct as regards managing their finance. It proves that the actual reason for the debt crisis was not the fiscal profligacy of irresponsible members but the Eurozone's design and management failures.

Debt-fuelled growth cannot be sustainable. The 2008 global financial crisis acted as a trigger to the Eurozone crisis [4, p. 329]. Capital flows to the periphery came to a sudden stop, anda large number of banks, firms and households, found themselves unable to repay their debts. This set in motion the well-known debt deflation dynamic.

As the monetary instruments were unavailable to European governments, they had to respond to the banking crisis of October 2008 by allowing their own debt levels to increase. This was achieved by taking over the private debt (mostly banks debt) and increasing public expenditure to prevent recession [1, p. 13–14]. It led to sudden jumps in government debt. Between 2007 to 2009Spain moved from a 2-percent-of-GDP budget surplus to an 11-percent-of-GDP deficit. During the same period, Ireland moved from a balanced budget to a 14-percent-of-GDP deficit, while its debt jumped from 25 percent to 64 percent of GDP [6, p. 15]. The situation was aggravated by the debt overhangs inherited from the pre-euro period. This is how the real-economy crisis turned into the financial crisis.

After the Greek insolvencywas exposed in October 2009, investors went into a panic and started selling the sovereign bonds of other member states, which could be in similar fiscal situations. The collapse of the government bond prices led to the corresponding interest rate spikes, which meant that governments could no longer roll over their debts and required financial assistance.By 2011, the contagion had infected the monetary union as a whole.

What is peculiar about the nature of the Eurozone crisis is that it is self-fulfilling, i.e. when investors (e.g. banks holding sovereign debt) fear default, they act in such a way that default becomes more likely [5, p. 11]. Fears of sovereign default undermine confidence in investors, forcing them to contract their balance sheets, driving the price of sovereign debt still lower [3, p.445]. Even if a government is solvent, market sentiments can push it into a bad equilibrium so that it faces solvency problems. It means that any member of the monetary union can be brought to default unless it is considered a safe haven by the markets. This reveals the extreme vulnerability of the monetary union design implemented in the EMU.

However, these issues were not timely realised by the Eurozone policymakers, and the causes of the crisis were misdiagnosed. As the distressed governments were considered profligate, the financial assistance was made conditional on imposing strong austerity programsrequiring cutting spending and raising taxes. A deep recession in the Eurozone's periphery was a natural result. Economic slowdown decreased revenues of Southern European governments, thus making their fiscal positions still worse [5, p.10].

Summing up, the Eurozone periphery countries could hardly do anything to prevent or mitigate the crisis because they were lacking adequate policy instruments. First, they were not able to prevent the credit booms because they had no control over their interest rates and also had no authority to impose capital controls in a monetary union. Second, they were not able to cope with the financial crisis when it broke out because they had no money-issuing body that could provide liquidity and thus effectively calm down the markets. Third, they were not able to offset the adverse effects to the real economy because their exchange rates were absolutely fixed and they were not able to restore competitiveness through devaluation. Therefore, the euro clearly became an economic trap for a large part of the Eurozone, and the governments had to follow the procyclical policies imposed by the European authorities.

In the meantime, the ECB had equally no means to prevent or mitigate the crisis by following its mandate. First, in outlining its monetary policy, the ECB was guided by the Eurozone average inflation indicators, had no responsibility for controlling inflation in individual member economies and had no instruments for exercising such control. Second, the ECB were not able to avert the sovereign debt crisis by providing liquidity in the government bond markets because its statute explicitly prohibited such operations. In general, the ECB was envisaged as a monetary rule, having the only responsibility of price stability and bearing no responsibility for the financial stability. Therefore, the monetary union design implemented in the Eurozone was obviously subject to certain failures that must be corrected by any economic union striving for monetary integration.

The major implications of the Eurozone crisis for the EAEU consist in the fact that all member countries of the prospective monetary union must be equipped with adequate policy instruments that would allow them to: (a) pursue an independent monetary policy when the interest rate instrument is unavailable, (b) maintain financial stability when the lender-of-last-resort function is lost, and (c) make adjustments to or compensate for divergent price developments when the exchange rate instrument is foregone. These are the prerequisites for ensuring the stability of a monetary union.

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СРАВНИТЕЛЬНЫЙ АНАЛИЗ СТРУКТУРЫ ДОБАВЛЕННОЙ СТОИМОСТИ В ЭКСПОРТЕ ТОВАРОВ НЕКОТОРЫХ СТРАН ЦЕНТРАЛЬНОЙ И ВОСТОЧНОЙ ЕВРОПЫ И РЕСПУБЛИКИ БЕЛАРУСЬ

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В последние годы все большее внимание исследователей привлекает анализ внешней торговли на основе добавленной стоимости. В соответствии с данной логикой в валовом экспорте страны выделяются две составляющие: отечественная (использованные отечественные промежуточные товары, прибыль, налоги, транспортные и торговые наценки) и иностранная (прямая и косвенная) добавлен-